

**Review: 4251  
Statewide Single Audit  
Year Ended June 30, 2005  
Department of Employment Security**

- 05-10. The auditors recommend IDES review the current process for reporting financial information to the State Comptroller and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDES should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. (Repeated-2002)**

**Findings:** IDES does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely. During the review of the financial reporting process, the auditors noted several correcting journal entries were required to accurately state amounts reported by IDES.

In discussing this with IDES officials, they stated there were two adjustments made by IOC for the 052 Fund, one to reverse the entry for the estimated payable and one to correct the payable based on final State FY05 lapse period payments. These were made to improve the accuracy of the financial statements. The IOC made two reclassifying entries due to a change in our SCO567 after our submittal and approval by the Illinois Department of Commerce and Economic Opportunity changing the type of Payment/Service codes. We also made adjustments to the Master Bond Fund. This was the first year of financial activity for this fund resulting in many discussions between the agency and the IOC in terms of presentment of the financial information.

**Updated Response:** Accepted. We continue to work with the Illinois Office of the Comptroller (IOC) and staff to improve the accuracy and timeliness of our financial statements. The reports are reconciled to our accounting systems and federal reports are reviewed prior to submission to the IOC.\_

- 05-85. The auditors recommend IDES review its procedures for approving and documenting eligibility determinations in the case files and implement any changes necessary to ensure payments are made only to eligible participants. Further, IDES should implement procedures to ensure vocational and training plans, training agreements, and applicable waiver forms exist and are properly completed, reviewed, and approved. (Repeated-2004)**

**Findings:** IDES paid Trade Adjustment Assistance (TAA) benefits to ineligible beneficiaries, and was unable to locate case file documentation supporting client eligibility determinations.

The purpose of the TAA and the North American Free Trade Agreement-TAA (NAFTA-TAA) programs are to assist individuals who become unemployed or underemployed as a result of increased imports or a shift of production to Mexico or Canada to return to suitable employment. Workers certified under TAA or NAFTA-TAA petitions filed prior to November 4, 2002, were to be served under the program regulations as they were in effect before November 4, 2002. The State's One Stop Career Centers (and local offices) arrange for training and provide weekly trade readjustment allowances (TRA) for eligible program participants. In addition, eligible individuals may receive a job search allowance, a relocation allowance, and a transportation and/or subsistence allowance for the purpose of attending approved training outside the normal commuting distance of their regular place of residence.

During testwork of the TAA beneficiary payments, the auditors selected 60 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits, and noted the following exceptions:

- In 30 cases, the waiver for training was either incomplete or lacked required documentation. Benefits paid to these individuals were \$265,407.
- In 20 cases, the worker's enrollment date did not occur within the established deadlines. The TRA benefits improperly paid to these individuals were \$40,988.
- In five cases the TAA-055 application form was not dated by the applicant. Benefits paid to these individuals were \$51,909.
- In one case, IDES was unable to provide the TAA-055 application. Benefits paid to this individual were \$12,032.
- In one case, the TAA-055 application was not completed and was not signed by either the claimant or the regional office. Benefits paid to this individual were \$2,176.
- In two cases, the TAA-055 application was blank but was signed by the applicant. Benefits paid to these individuals were \$17,772.
- In 22 cases, IDES did not properly approve and/or date the training agreements. The auditors were unable to determine whether: (1) the worker was enrolled in an approved training program; (2) the worker's training start date occurred before the program was approved; and (3) the worker received TRA benefit payments before the training program was approved. Benefits paid to these individuals were \$82,967.
- In 10 cases, IDES did not properly approve and/or date the vocational and training plan. The auditors were unable to determine whether: (1) the worker was enrolled in a training program before the worker's skills and employment history has been assessed and approved; (2) the training program was necessary; or (3) the worker should have been waived from participating in a training program. Benefits paid to these individuals were \$26,169.

In discussing these conditions with the agency officials, they stated the program was in a state of transition due to federal law changes and the transfer of the TAA program to the

Department of Commerce and Economic Opportunity (DCEO). The Local Workforce Investment Areas (LWIAs), as grant recipients charged with administering the TAA program, were the source of some of the discrepancies noted. In addition, the Federal government has not yet promulgated rules to implement the Trade Act of 2002.

**Response:** We partially disagree. IDES and DCEO have worked in good faith with the U.S. Department of Labor (USDOL) to assess TRA benefits paid out since October 1, 2003 and to ensure future TRA benefit payments are handled in accordance with USDOL's directions. Changes to State procedures have been made, and will continue to be made as may be necessary, based on the feedback and guidance from USDOL. The State and USDOL are collaborating on a comprehensive resolution to the issue and hope to implement it soon. However, IDES cannot by itself ensure that training plans, agreements and waivers are properly prepared, completed and reviewed, prospectively, given that those items are now the responsibility of Illinois Department of Commerce and Economic Opportunity (DCEO).

**Auditors' Comment:** In discussing this finding with IDES officials, they appear to partially disagree with the finding due to the Federal government not yet promulgating rules to implement the Trade Act of 2002 and the difficulty in interpreting regulations. We recommend IDES work with the USDOL to clarify the program compliance requirements to enable the agency to administer the program in accordance with USDOL expectations and program compliance requirements.

**Updated Response:** Implemented. During the period from August 2006 through December 2006 IDES completed a 100% review of all TRA claims (approximately 1027) established since December 1, 2005. Region V of the U.S. Department of Labor conducted a follow up review of 113 participants files from nine local area offices. There were no compliance findings reported for IDES. In their report, Region V acknowledged the State's efforts in implementing TAA program policies and procedures that addressed the requirements of the Trade Act of 2002, staff training and development, and initiating program monitoring.

Partially Accepted. IDES is responsible for securing and reviewing the hard copies of waivers from training and verification of enrollment in training documents issued by the LWIA case managers to ensure clients' eligibility prior to any payment of TRA. Continuing communication and coordination between IDES and the Illinois Department of Commerce and Economic Opportunity occurs at the very least weekly so that this can be accomplished.

**05-86. The auditors recommend IDES implement procedures to ensure documentation to support key line items can be provided from the DART system for the ETA 9002 and the VETS 200 performance reports. (Repeated-2004)**

**Findings:** The Department was unable to provide documentation to support information reported in certain performance reports.

IDES prepares the ETA 9002 and the VETS 200 performance reports to report services, activities, and outcomes of service for all job seekers and veterans to the US Department of Labor (USDOL). These required quarterly reports are used to assess a State's success in meeting its performance goals. The reports include data from the Illinois Skills Match (ISM) system and the Unemployment Services Wage Information System (WIS). IDES uses a report writer, the DART reporting system, to accumulate the data from the two systems into the format required for the reports. This data is then submitted electronically through the USDOL's Employment and Training Administration's web-based reporting system.

In discussing this with IDES personnel, they stated that detailed, voluminous quarterly data extracts were created and archived as recommended in the prior year's audit but are not easily compiled or accumulated to allow for the testing of key line items.

**Updated Response:** Implemented. The Department's IT staff created data extracts for the two performance reports that allowed the auditors to trace the information for the sample social security numbers to the Illinois Skills Match System, the Wage Information System for Illinois wages and/or the printouts from the WRIS System for interstate wages.

**05-87. The auditors recommend IDES consider automating the interface with the social security administration and implement additional procedures to ensure invalid social security numbers are appropriately followed up to prevent payment of benefit to ineligible claimants. IDES should also consider implementing procedures to follow up on social security number name and date of birth mismatches.**

**Findings:** IDES does not have adequate procedures to follow up on invalid social security numbers for claimants of the Unemployment Insurance (UI) program. IDES' policy is to only investigate invalid social security numbers (i.e. name and date of birth mismatches are not investigated). IDES manually distributes (faxes) the listing of invalid social security numbers to each local office where the claims were originated. Applications with invalid social security numbers are identified (flagged) in the Benefit Information System by the local office to ensure payments are either stopped or not made until the issue is resolved. Each local office is responsible for following up on resolving the potential invalid social security numbers.

During testwork over the eligibility of UI benefit payments, the auditors selected a sample of 60 claimants from a listing of invalid social security numbers and noted ten were not properly investigated by IDES. Total benefits paid to the ten claimants were \$58,966. A total of 1,364 out of 454,035 social security numbers were reported as potentially invalid by the Social Security Administration for which benefits paid were approximately \$1,097,000. In discussing these conditions with IDES officials, they state the lack of follow up resulted from the manual nature of the process including the distribution of the invalid social

security number reports and the reliance on each local office to adequately follow up and resolve potentially invalid social security numbers.

**Response:** We agree. The Department intends to automate the interface with the Social Security Administration after conversion to the new Benefit Information System. The current legacy system will not support an on-line interface. However, in the interim, the invalid social security number process will be automated internally so that a system generated stop will be placed on initial claims identified as having invalid social security numbers. The stop will remain in effect until the claimant reports to the local office and the issue is resolved. We will also work to establish procedures for the handling of name and date of birth mismatches identified via the match with the Social Security Administration, ensuring there is appropriate follow-up that comports with federal law, regulations and guidance in this evolving area.

**Updated Response:** Accepted. The Department intends to automate the interface with the Social Security Administration after conversion to the new Benefit Information System (IBIS). The current legacy system will not support an on-line interface.

Implemented. The invalid social security number process was automated internally in June 2006 so that a system generated stop is now placed on initial claims identified as having invalid social security numbers. The stop will remain in effect until the issue is resolved.

Under Study. As part of the BIS redesign, we are studying the possibility of handling name and date of birth mismatches identified via the match with the Social Security Administration.

**05-88. The auditors recommend IDES clearly document the resolution of each exception report (including supervisory review) and retain the reports as considered necessary to comply with federal audit requirements. IDES should also consider automating the claim exception edit reports into the Benefits Information System in future years to facilitate a more efficient and effective process for claims exception resolution documentation.**

**Findings:** IDES does not adequately document the review and follow up of claim exception reports.

The IDES Central Office generates several system (exception) reports to facilitate proper benefit payment that are utilized at the local office level and monitored by local office and/or regional office management. Per federal program emphasis, several of the common reports reviewed locally are designed to report claims with unresolved issues that are preventing payment, as a tool to ensure payments to eligible individuals are made timely. These reports include the following:

- SSN Verification From SSA
- Sensitive Changes Report - includes name, address and SSN changes

- Immigration Record Check For Unemployment
- Combined Application Error Report
- File Maintenance Error Report and Rejected Transaction Report
- Transfer Report
- Daily Rejected Report
- All Transactions
- Claims Application Error
- Internet Claim Deletions Report
- First Certification Report
- Certification Summary Report
- Pending Adjudication Report

During testwork, the auditors noted that IDES only retains claim edit reports (except for the sensitive changes report) for three months after the end of each quarter. Accordingly, the auditors were not able to determine whether there was an appropriate supervisory review to ensure that potential claim exceptions were properly resolved during the year. Based on a limited review of claim exception reports subsequent to June 30, 2005, the auditors found that resolution of exceptions was not clearly documented on the reports. Additionally, there were several instances in which supervisory reviews were not documented.

In discussing these conditions with IDES officials, they stated they believe the reports are being worked, but the specific methods to document the resolution of report items has not been formalized in policies and procedures for all reports. Daily supervisory review has not been required on all reports, but periodic monitoring is required on key reports.

**Updated Response:** Implemented. Field staff from each Region office completed training from October 2006 to February 2007 on the proper review and documentation of exception reports. Agency procedures were also updated to clarify the requirements for reviewing exception reports.

Under Study. Automation of exception reports and retention periods are also being considered as part of the ongoing Benefit Information System redesign.

**05-89. The auditors recommend IDES implement procedures to ensure all required documentation is retained in the Benefits Accuracy Measurement (BAM) unit case files.**

**Findings:** IDES did not maintain adequate documentation to support conclusions of eligibility reviews performed by the Benefits Accuracy Measurement (BAM) unit for the Unemployment Insurance (UI) program.

IDES is required to operate a BAM Program to assess the accuracy of UI benefit payments and denied claims. Specifically, IDES' BAM unit selects a weekly sample of payments and denied claims and performs procedures to determine whether claims were properly paid or denied. During the year ended June 30, 2005, IDES' BAM unit reviewed a sample of 928 claims out of a total of 753,655 claims.

During testwork over the BAM program, the auditors selected 120 claims reviewed during the year and noted the following:

- One file for a claimant deemed to have been properly paid did not include a copy of the key week certification.
- One file for a claimant deemed to have been improperly denied UI benefits did not include a copy of the claimant's identification.

In discussing these conditions with IDES officials they stated the screen print of the telephone certification was misplaced after the investigation and review by the supervisor. In the other instance, the investigator looked at the claimant's identification during the in-person interview, but failed to make a copy per a notation in file.

**Response:** We agree. IDES met federal requirements in two reviews of the Benefits Accuracy Measurement Program conducted by Region V of the U.S. DOL Employment and Training Administration covering SFY 2005. The Benefit Accuracy Measurement Unit has written procedures in place consistent with federal requirements. To address the audit recommendation, we will retrain staff on proper case file documentation. As a follow-up, the supervisor will conduct spot checks of case files to ensure procedures are being followed.

**05-90. The auditors recommend IDES establish clear criteria for determining which claims should be investigated. IDES should also document procedures performed.**

**Findings:** IDES does not have adequate procedures for follow up on multiple unemployment benefit checks delivered to the same address.

To detect potentially fraudulent Unemployment Insurance (UI) claims, IDES monitors unemployment benefit checks paid under more than five social security numbers that are delivered to the same address via a multiple claims same address edit report. Total claims identified under the multiple claims same address edit reports were 46,848 during the year ended.

A supervisor reviews the claimants identified in the report and determines what follow-up procedures, if any, are to be performed. However, there are no clear criteria documented for determining which claims should be investigated. Additionally, there is no

documentation of the procedures performed on these claims by the Benefit Payment control unit.

In discussing these conditions with IDES officials, they stated the supervisor reviews the reports and determines which items require follow-up. However, they did not believe it was necessary to prescribe the details of the selection criteria and how this is documented in the Department's Policies and Procedures.

**Response:** We agree. The Department's Policies and Procedures will be revised to include criteria for determining which addresses are investigated, documentation of supervisory review, documentation of follow-up procedures performed and retention of the reports and follow-up documentation.

**05-91. The auditors recommend IDES:**

- **Follow the established formal review process for all directives prior to communicating them to the local offices and prior to updating the manual on the intranet.**
- **Maintain copies of claim application, identification, and work history in claimant eligibility files or the Benefits Information System as appropriate.**
- **Implement a supervisory review of claimant eligibility files on a sample basis to ensure all necessary documentation is present and policies and procedures have been appropriately followed. All supervisory reviews should be documented in the claimant eligibility file or the Benefits Information System as appropriate.**

**Findings:** IDES policies and procedures are not updated on a timely basis nor are they consistently followed by local offices. IDES has developed a comprehensive policies and procedures manual (the manual) available on their intranet to all employees to allow for the consistent and proper administration of the UI program. Updates or clarification to the manual are issued through directives by the process owners. However, IDES did not always follow the process in place to ensure the manual is updated for these directives. As a result, we noted policies and procedures were not consistently followed at local offices, including the following:

- Certain individuals were utilizing outdated printed copies of the manual rather than referring to the intranet for the most recent version.
- Procedures for clearing and documenting items from claim exception reports were not consistent between offices.
- Copies of claimant identification (e.g. driver's license and social security card) were maintained at certain locations, but not others.
- One local office allowed a "drop off" policy which did not require a face to face interview.
- Although a formal policy has not yet been established to do so, applications were accepted over the internet without the claimant providing identification or being interviewed.



In discussing these conditions with IDES officials, they state that some individuals preferred to use hard copies of the discontinued printed manual. The specific methods to document review of the exception reports are not formalized in policies and procedures for all reports. Procedures do not require that claimant identification be maintained, only that it be reviewed during the intake process. The “drop off” policy was implemented by the local office without Central Office approval.

**Updated Response:** Implemented. The identified directive that was issued via a memo was formally incorporated into the Procedures Manual in October 2006. A supervisory review of claimant eligibility files was established in December 2006. Each Local Office Manager reviews 10 claims per week for accuracy and completeness of documentation. The results of the review are submitted to the Region UI Program Managers at the end of every month for their review and follow up, if needed.

Under Study. The Agency is reworking the intake process as part of the Benefit Information System redesign which will allow for consideration of how identification and other documentation are best retained. However, it has not been determined if it will be desirable to standardize identification documents since the identification authentication process will likely be different for in-person claims than it will be for claims filed over the Internet.

**05-92. The auditors recommend IDES implement procedures to ensure cash draws are made in accordance with the U.S. Treasury Regulations.**

**Findings:** IDES does not have adequate procedures to ensure cash draws are performed in accordance with U.S. Treasury Regulations.

The U.S. Treasury Regulations for the TAA program requires that funds be drawn in a way that minimizes the time between the receipt and disbursement of Federal funds. IDES draws funds for the TAA program based upon the cash balance of the federal funds. During test work over forty cash draws, the auditors noted that one draw was incorrectly calculated resulting in a draw down in excess of \$1.2 million instead of \$435,769.

In discussing this with IDES personnel, they stated this was a clerical error by the staff person who made the error using an adding machine.

**Response:** We agree. IDES has changed its cash draw procedures. An electronic spreadsheet has been designed to document and calculate the cash draw amounts. The supervisor also reviews and approves the spreadsheet prior to staff processing the cash draw transactions.

**05-93. The auditors recommend IDES implement procedures to ensure policies and procedures are adequately documented, updated, and followed. We also recommend that IDES document its semi-annual review of the**

**appropriateness of user access rights and its resolution of all reported problems.**

**Findings:** IDES does not have adequate documentation of access, change management, and computer operations controls over the information systems that support the Unemployment Insurance (UI) Program.

Access to the information systems that support the UI Program is done through the mainframe system utilizing a security software system. The security software utilizes specific, individually-assigned identifiers which control/limit access to the systems that support the UI Program.

Requests for new system access or termination of access must be approved by the cost center manager through the use of the TSS-001 Form. The user IDs are automatically deleted once employment has terminated as each pay period a job is run which checks employee status against the personnel data base. When this job identifies employees who have terminated, the user ID for the individual is removed. Any modification of access must also be approved by the cost center manager through the use of the TSS-006 Form. It is the cost center manager's responsibility to determine the proper on-line access for each employee.

During testwork over the access, program change and development, and computer operations controls of the mainframe system, the auditors noted the following:

- The policy in place for granting, modifying, and terminating access rights is not followed.
- User account privileges and profiles are reviewed on a semi-annual basis to confirm the appropriateness of user access rights; however these reviews are not documented.
- Policies and procedures relating to the documentation of testing of program changes have not been created.
- The Information Security Policies and Procedures have not been updated since 1999.
- Formal problem management documentation has not been incorporated into the policies and procedures manual.

In discussing these conditions with IDES officials, they stated that procedures are in place and are generally followed but documentation is not always sufficient for testing purposes.

**Response:** We agree. Although no system security breaches have been identified, we agree to expand existing procedures to ensure sufficient documentation related to these IS controls is created, reviewed and maintained. We will also revise existing procedures so that the semi-annual review of user access rights requires a response from all cost center managers even when no user access changes are needed and to incorporate the existing problem management documentation.